BBVA Research

FINANCIAL REGULATION OUTLOOK 3Q18

BASEL III

What comes next?

The Basel Committee envisages the implementation for **2022**, except for the capital floor, which is for **2027**

EBA is undertaking an **impact assessment**. The report will be ready by **June 2019** and we expect a legislative proposal of the Commission for the first half of **2020**

FUNDING **IN RESOLUTION**

Both the industry and the authorities agree that one of the **most pressing issues** that needs an urgent solution is **the lack of a clear funding in resolution mechanism in the Eurozone**

One **idea to establish** such a mechanism could be that **the European Central Bank**, backed by guarantees from the Single Resolution Fund, assumes the responsibility to also provide the liquidity for a bank in resolution

STATUS OF REGULATION: PENDING ISSUES

Although we are taking the final steps in the regulatory reform, there are still important regulatory packages to be finalized, tested and implemented

Regarding prudential regulation, the final **CRD V text is expected for end-2018** (and two years more for implementation)

There is more uncertainty on the changes expected on the European institution. In this month **Ecofin** there could be advances regarding the backstop to the **Single Resolution Fund** and in the **common deposit guarantee fund** (EDIS)

STS Securitisation

Objective:

Create a label that indicates that it is a **simple, transparent and standardized product**

This regulation aims to revive the securitisation market after the financial crisis, it is soon to know if it will have the positive effect that seeks, but the market believes that it will help to recover the reputation lost

STRENGTHENING THE **BANKING UNION**

European positions are highly polarised. Some countries do not want to advance further towards risk sharing without **first making progress on risk reduction measures.** Other countries insist on the idea that **completing the Banking Union should be a priority**

It is essential to concrete a roadmap to develop **the backstop to the resolution fund, the implementation of the EDIS and redefinition of ESM**

FINANCIAL REGULATORS ADAPT ALSO TO **DIGITAL ENVIRONMENT**

The digital transformation process has led European Banks to multiply by ten therecruitment of technology specialists in the last three years

Not only should financial institutions adapt **but also regulators and supervisors**

Examples of how financial regulators and supervisors have adapted their internal organizations and adopted policies to recruit staff

Spain

Bank of Spain, DG for financial innovation (2018). **CNMV**, Subgroup on Fintech and Cybersecurity (2018) and staff training programs (2018)

LatAm

Mexico: CNBV, announces internal restructuring after Fintech Law (2018)
Colombia: SFC, InnovaSFC (2018)

UK

FCA, Project Innovate and regulatory sandbox (2014)

Asia

Singapur: MAS creates Fintech Office and Sandbox (2016)
Hong Kong: HKMA, Fintech Supervisory Sandbox and **Fintech Facilitation Office** (2016)

Other authorities around the world (especially the European) should incorporate similar changes into their organizations

U.S. FINANCIAL REGULATION: RELIEF AND RECALIBRATION

There are two channels to modify financial regulation: legislative and regulatory changes

1 LEGISLATIVE

the Congress adopted a bill that modifies, but does not repeal, the Dodd-Frank Act:

- It provides regulatory relief for **smaller and regional banks**
- It increases the asset threshold to qualify for enhanced prudential standards:

$50 billion → **$250 billion** (can be applied to banks with at least **$100 billion)**

2 REGULATORY

changes in different pieces of regulations, for example:

- **Capital rule**: simplified by combining it with the stress test results
- **Volcker Rule**: simplified treatment and tailored requirements on the size of trading portfolio